

1 **TESTIMONY OF RICHARD A. SODERMAN**
2 **ON BEHALF OF**
3 **WESTERN MASSACHUSETTS ELECTRIC COMPANY**
4 **D.T.E. 01-99**
5

6 **Introduction**

7 **Q.** Please state your name and business address.
8

9 **A.** My name is Richard A. Soderman. My business address is 107 Selden
10 Street, Berlin, Connecticut 06037.
11

12 **Q.** Please state your position with the Western Massachusetts Electric
13 Company
14 ("WMECO" or the "Company").
15

16 **A.** I am Director of Regulatory Policy and Planning for Northeast Utilities
17 Service Company, which provides centralized services to the operating
18 companies of the Northeast Utilities ("NU") system, including WMECO.
19

20 **Q.** In your position, what are your responsibilities?
21

22 **A.** I am responsible for developing and implementing regulatory policies and
23 practices for the NU system companies. As part of these responsibilities, I
24 have directed the preparation and filing of various plans and proposals
25 related to electric industry restructuring, including those necessary to

1 implement the Massachusetts Electric Industry Restructuring Act (the
2 “Act”).

3

4 **Q.** Please summarize your testimony.

5

6 **A.** My testimony is submitted in support of WMECO’s request that the
7 Department of Telecommunications and Energy (“Department”) find that:
8 (1) the terms of the 2001 Amendatory Agreement between WMECO and
9 Vermont Yankee Nuclear Corporation are in the public interest, and will
10 result in just and reasonable rates for WMECO; and (2) WMECO’s decision
11 to enter into the 2001 Amendatory Agreement is consistent with its
12 obligation to mitigate its transition costs under the Massachusetts
13 Restructuring Act (Chapter 164 of the Acts of 1997). My testimony will
14 discuss elements of the recently-announced sale of the nuclear generating
15 unit owned by the Vermont Yankee Nuclear Corporation, economics of the
16 proposed transaction for WMECO’s customers, and a revised estimated
17 transition cost recovery schedule relating to the 2001 Amendatory
18 Agreement.

19

20 **Q.** Have you submitted testimony to the Department previously?

21

22 **A.** Yes, many times. Most recently, I testified in D.T.E. 00-68, WMECO’s
23 request (along with New England Power Company and Fitchburg Gas and

1 Electric Light Company) to sell its share of the Millstone Point nuclear
2 units.

3

4 **Current Vermont Yankee Operating Structure and WMECO's Obligation**

5 **Q.** Please describe the current operations and structure of Vermont Yankee
6 Nuclear Power Corporation ("Vermont Yankee").

7

8 **A.** Vermont Yankee owns and operates a single nuclear-powered electric
9 generating station with a nominal capacity of 540 megawatts (with winter
10 and summer ratings from ISO New England, Inc. of 529 megawatts and 506
11 megawatts, respectively), located in Vernon, Vermont (the "Station"). The
12 Station commenced operation in 1972 and is licensed by the Nuclear
13 Regulatory Commission ("NRC") to operate until March 2012. The common
14 equity of Vermont Yankee is owned by 12 utilities. Eight of those utilities,
15 including WMECO, have long-term power contracts with Vermont Yankee
16 and are known as the 'Sponsors'. In connection with the organization of
17 Vermont Yankee, each of the Sponsors entered into a power contract as of
18 February 1, 1968 (as subsequently amended, the "Power Contract").
19 Pursuant to each Power Contract, the Sponsor must take a certain
20 percentage of the output of the Station and must pay the same percentage
21 of the operating and maintenance expenses and capital costs of the Station,
22 including the cost eventually to decommission the Station at the
23 termination of its NRC license. WMECO owns 2.5 percent of the common

1 stock of Vermont Yankee, and, pursuant to the Power Contract, must take
2 to 2.5 percent of its output through March 2012.

3

4 **Sale of Vermont Yankee**

5 **Q.** Why did Vermont Yankee decide to sell the Station?

6

7 **A.** As utilities, many of the Vermont Yankee Sponsors have plans, similar to
8 WMECO's restructuring plan, which require them to exit the business of
9 generating electricity and to mitigate stranded costs. Therefore, the
10 continued ownership of the Station and the continued risk of operating
11 generation were inconsistent with these plans.

12

13 **Q.** Please summarize the process the Sponsors and shareholders followed
14 that led to the sale of the Station.

15

16 **A.** An outreach effort to solicit interest in the sale of the Station was initiated
17 in the latter part of 1998 that included discussions with several firms and
18 writing to many companies. As a result one party, AmerGen Energy
19 Company, LLC ("AmerGen"), expressed interest in the Station and
20 AmerGen entered into a Purchase and Sale Agreement with Vermont
21 Yankee. This sale was not consummated, however, because during the
22 course of regulatory hearings it became clear that there were additional
23 parties in the market for nuclear power plants and that the market for

1 nuclear power plants had become more vibrant. The Vermont Public
2 Service Board dismissed the petitions for approval before it and the
3 proposed transaction with AmerGen was terminated. As a result of the
4 above, WMECO withdrew its filing relating to the sale of the Station to
5 AmerGen (see, D.T.E. 00-11 (2000)).
6

7 **Q.** When was the decision made to sell the Station through the present
8 auction process?
9

10 **A.** On March 16, 2001, the Vermont Yankee Board of Directors voted to
11 proceed to establish an auction for the Station. Shortly thereafter, J.P.
12 Morgan Securities, Inc. ("JPM") was selected as the auction agent by the
13 Sponsors and shareholders. JPM, the auction agent retained by the
14 Connecticut Department of Public Utility Control in the successful sale of
15 the Millstone nuclear units (approved by the Department in D.T.E. 00-68),
16 was chosen based a number of factors.
17

18 **Q.** Please describe your understanding of the process JPM employed to sell
19 the Station.
20

21 **A.** JPM basically used a four phase process. First, in the planning stage, JPM
22 discussed with Vermont Yankee its auction objectives and the assets that
23 would be placed on sale. Second, JPM launched a marketing phase in

1 order to elicit as much interest as possible. This was followed by a due
2 diligence phase in which eligible bidders were provided with additional
3 information pursuant to appropriate confidentiality agreements. Finally,
4 JPM evaluated the bids and presented its recommendation to proceed to
5 negotiations with Entergy Nuclear Vermont Yankee LLC ("ENVY"). A
6 PSA with ENVY was subsequently entered into on August 15, 2001.

7

8 **Q.** Is it your understanding that the auction conducted by JPM was fair?

9

10 **A.** Yes. My review of the auction indicates it was a fair and equitable process
11 open to all qualified participants.

12

13 **Q.** Please review the important terms of the sale of the Station to ENVY.

14

15 **A.** Let me first note WMECO is not seeking approval by the Department of
16 the sale of the Station. The sale is subject to the exclusive jurisdiction of
17 the Federal Energy Regulatory Commission ("FERC"), which must review
18 and approve it. However, the sale establishes the context in which
19 WMECO entered into the 2001 Amendatory Agreement. WMECO does
20 request certain findings pertaining to the 2001 Amendatory Agreement
21 Accordingly, it is important to set forth the terms of the sale, which are
22 advantageous to WMECO and its customers.

23

1 The two key aspects of the sale are: (1) the sale price, \$180 million, which
2 includes ENVY's assumption of certain liabilities; and (2) the PPA for 100
3 percent of the output of the Station.

4

5 **Q.** Please elaborate on the sale price and assumption of liabilities.

6

7 **A.** The sale price of \$180 million includes \$35.1 million for unspent nuclear
8 fuel. This is the projected value of the fuel on February 28, 2002 and will
9 be adjusted, up or down, based on the closing date. In addition, the sale
10 price

11 includes \$28.7 million for non-fuel inventory. This value will also be
12 adjusted up or down to reflect the actual inventory on the closing date. The
13 \$180 million is also subject to adjustment at closing for taxes, rent, and other
14 accrued pre-closing costs.

15

16 At the time of closing, substantially all of Vermont Yankee's assets will be
17 transferred to ENVY, including Station assets, real estate assets in Vernon
18 and Brattleboro, and decommissioning trust funds. The sale includes
19 ENVY's assumption of liabilities related to the decommissioning of the
20 Station, liabilities related to spent nuclear fuel (with the exception of
21 liability to the Department of Energy for payment of a one-time fee
22 associated with pre-1983 spent fuel), employee benefit liabilities, potential
23 environmental liabilities, and potential nuclear liabilities. At closing,

1 ENVY will assume all obligations relating to the operation and
2 maintenance of the Station and will become the Nuclear Regulatory
3 Commission licensee. In addition, ENVY will assume all responsibility for
4 safely decommissioning the Station.

5

6 **Q.** Do the terms of the sale anticipate a decommissioning top-off payment by
7 Vermont Yankee?

8

9 **A.** The sale price includes ENVY's assumption of full responsibility for
10 decommissioning the Station upon receipt of Vermont Yankee's
11 decommissioning funds at closing and no decommissioning top-off payment
12 is required. It is expected that the value of the qualified and nonqualified
13 decommissioning funds at closing will meet or exceed the Nuclear
14 Regulatory Commission-required minimum decommissioning amount,
15 However, if it is does not, Vermont Yankee is required to make additional
16 deposits to the decommissioning funds, capped at a maximum of \$5.4
17 million. As the holder of a 2.5 percent Entitlement Share, WMECO would
18 be responsible for 2.5 percent of any additional deposit.

19

20 **Q.** Now please turn to the Purchase Power Agreement and explain that
21 agreement.

22

1 **A.** The PPA serves to maintain Vermont Yankee's right to the Station's
2 output, which it has then sold to the Sponsors and shareholders since 1972
3 under the existing Power Contracts. However, the PPA is different in
4 several critical aspects. Under the PPA, Vermont Yankee will not commit
5 to pay Entergy's cost of service. Instead, Vermont Yankee will only pay a
6 fixed price for electricity actually delivered. Therefore, unlike the current
7 arrangement, Vermont Yankee (and its Sponsors, shareholders and their
8 customers) will not bear the risk that the costs of the Station may increase
9 or that the output of the Station may decline.

10

11 **Q.** Please provide the key terms of the PPA.

12

13 **A.** The key terms are related to the right to the Station's output as set forth
14 above. Vermont Yankee will take 100 percent of the output of the Station
15 through the end of the current operating license, March 2012. The
16 Sponsors and shareholders will keep their respective existing entitlement
17 percentage for the output of the Station. The price of the output is as
18 follows:

19 2002 - \$42.60 per mWh (average annual price)
20 2003 - \$42.00 per mWh
21 2004 - \$42.80 per mWh
22 2005 - \$39.50 per mWh
23 2006 - \$39.00 per mWh
24 2007 - \$40.00 per mWh
25 2008 - \$41.00 per mWh
26 2009 - \$42.00 per mWh
27 2010 - \$43.00 per mWh
28 2011 - \$44.00 per mWh

1 2012 - \$45.00 per mWh
2

3 **Q.** Are there any adjustments possible to prices set in the PPA?
4

5 **A.** Yes. Significantly, the PPA also includes a low-market adjustment
6 mechanism ("LMA") beginning in November 2005. The LMA adjusts the
7 PPA price down to 105 percent of the NEPOOL Market Price when the
8 Market Price in NEPOOL is less than 95 percent of the PPA price. Market
9 price is defined in the PPA as 110 percent of the trailing twelve-month
10 average monthly ISO-New England energy price. This low-market
11 adjustment mechanism serves to protect Vermont Yankee (and, as
12 described below, WMECO and the other Sponsors and shareholders).
13

14 **Q.** How does the PPA between ENVY and Vermont Yankee affect WMECO?
15

16 **A.** The overall transaction is dependent on the Sponsors and shareholders,
17 including WMECO, entering into an agreement with Vermont Yankee,
18 termed the 2001 Amendatory Agreement. The 2001 Amendatory
19 Agreement extends important elements of the PPA to the Sponsors.
20 Specifically, the 2001 Amendatory Agreement has modified the Power
21 Contracts to:
22 (1) eliminate all the provisions relating to Vermont Yankee's operation of
23 the Station;

- 1 (2) change the payment provisions from the existing cost of service
2 language that includes all the Station's operating, maintenance and
3 decommissioning costs to a specific enumeration of the potential
4 Vermont Yankee costs that may be incurred after the closing, such as
5 the continuing liabilities under the PSA and PPA (other than power
6 costs);
7 (3) obligate each Sponsor to pay its share of the PPA purchase price for
8 energy actually delivered; and
9 (4) provide assurance of due performance of the payment obligations for
10 the relative Sponsor's and shareholder's entitlement.

11

12 **Q.** Was the buy-back element of the sale an important part of the successful
13 auction?

14

15 **A.** Yes. ENVY made clear that its proposal was conditioned on an obligation
16 by current purchasers to continue to take power from the Station through
17 2012. This was integral to the deal that was struck. There is no
18 provision for a different election.

19

20

21 **Benefits of the 2001 Amendatory Agreement**

22 **Q.** In your opinion, should the contractual arrangement set forth in the 2001
23 Amendatory Agreement be approved by the Department?

24

1 **A.** Yes.

2

3 **Q.** Please elaborate.

4

5 **A.** The 2001 Amendatory Agreement reflects an extremely favorable business
6 result for WMECO and its customers. First, the sale and the 2001
7 Amendatory Agreement is consistent with WMECO's restructuring plan,
8 which calls for WMECO to exit the generation business and mitigate, to
9 the maximum extent possible, its transition costs. The proposed
10 arrangement will reduce WMECO's risk associated with generation and
11 reduce or make fixed transition costs that are now in the variable portion
12 of the transition charge.

13

14 Second, the sale price, which will be credited to Sponsors and
15 shareholders ratably according to their ownership shares, is several times
16 higher than the cash price offered prior to the auction.

17

18 Third, under the sale and 2001 Amendatory Agreement, Sponsors and
19 shareholders will not be responsible for a "top-off" decommissioning
20 payment. The elimination of a "top-off" payment is a significant benefit
21 compared to the terms offered for the Station prior to the auction.

22 Vermont Yankee's latest site specific decommissioning cost estimate is

23 \$564 million in Year 2001 dollars. However, ENVY has agreed to accept

1 the existing decommissioning fund level (with an additional payment, if
2 any, capped as noted above); this level had a net book value of
3 approximately \$268.6 million as of September 30, 2001. The transfer of the
4 decommissioning liability therefore results in immediate benefit to
5 Vermont Yankee's Sponsors and shareholders by eliminating the
6 decommissioning trust contributions going forward.

7

8 Fourth, ENVY will assume full responsibility for payments to the Texas
9 Low Level Waste Compact, for low level radioactive waste from the
10 Station. These payments are significant and the elimination of this cost is
11 a major benefit compared to the terms offered for the Station prior to the
12 auction.

13

14 Fifth, the LMA mechanism serves to protect WMECO in the event of a
15 decline in market prices for energy.

16

17 Sixth, Vermont Yankee will not be required to borrow any money under
18 the proposed transaction and will be able to use part of the proceeds of the
19 sale to pay off its existing debt. There should be sufficient cash available
20 to buy-back or return capital related to some of Vermont Yankee's common
21 stock, thus eliminating the need to pay a dividend on common stock that is
22 ultimately collected from customers.

23

1 **Q.** Is there an alternative to the arrangement that you describe above?

2

3 **A.** In my opinion there is no alternative as beneficial to customers. Vermont
4 Yankee and the Sponsors and shareholders have determined to auction the
5 Station and the terms of the transaction are very favorable to WMECO and
6 the other Sponsors and shareholders. The Sponsors and shareholders and
7 their customers stand to benefit from a favorable purchase price and
8 favorable terms eliminating operating risks and other potential payments.
9 Should this transaction not come to fruition it is not at all certain that the
10 Station could be sold for anything approaching the proposed purchase
11 price or anything approaching the proposed additional favorable terms.

12

13 **Regulatory Treatment and Economic Analysis**

14 **Q.** How will WMECO reflect the costs associated with the 2001 Amendatory
15 Agreement in the Company's Transition Charge?

16

17 **A.** The Department's Order in D.T.E. 97-120 (September 17, 1999) approved
18 the Company's Transition Charge formula and, pursuant to G.L. c. 164, §
19 1G, provides for the recovery of costs related to the restructuring of long-
20 term purchased power contracts (for example, the Vermont Yankee Power
21 Contract) in the Transition Charge. Therefore, subsequent annual
22 Transition Charge Reconciliation Filings will include the impact of the
23 2001 Amendatory Agreement and the costs associated with it.

24

1 **Q.** Has WMECO performed an economic analysis demonstrating the financial
2 advantage of the transaction and the 2001 Amendatory Agreement?

3

4 **A.** Yes. WMECO has performed such an analysis in the form of the attached
5 Exhibits RAS-1 and RAS-2. Exhibit RAS-1 calculates the pre-Vermont
6 Yankee divestiture transition costs, reflecting WMECO's continuing
7 obligations under the current agreement. Exhibit RAS-2 calculates the
8 post-divestiture transition costs reflecting the impact of the 2001
9 Amendatory Agreement. However, it should be noted that the market has
10 determined the value of the Station and this constitutes an independent
11 basis for the approval of the 2001 Amendatory Agreement.

12

13 **Q.** What does the analysis demonstrate?

14

15 **A.** The analysis demonstrates that under a range of assumptions the 2001
16 Amendatory Agreement inures to the benefit of WMECO's customers.
17 Specifically, Exhibit RAS-1 indicates that without the 2001 Amendatory
18 Agreement WMECO's estimated transition costs related to its Vermont
19 Yankee obligations would be \$9.273 million on a net present value basis.
20 Exhibit RAS-2 indicates that WMECO's estimated transition costs would
21 be only \$2.049 million on a net present value basis under the assumption
22 that the sale of the Station to ENVY is consummated and WMECO enters
23 into the 2001 Amendatory Agreement. The calculation in Exhibit RAS-2

1 reflects transition costs prior to the inclusion of the Company's mitigation
2 incentive.

3 **Q.** What are the total estimated savings to WMECO's ratepayers as a result of
4 entering into the 2001 Amendatory Agreement?

5

6 **A.** As Exhibit RAS-3 indicates, the total Transition Charge savings to
7 WMECO's retail customers is estimated to be \$6.935 million on a net
8 present value basis.

9

10 **Q.** Do you conclude that the economic data supports the Company's decision
11 to enter into the 2001 Amendatory Agreement?

12

13 **A.** Yes. The total value of the Transition Charges that would be paid by the
14 Company's retail customers under the 2001 Amendatory Agreement will be
15 substantially less than the Transition Charges that the retail customer
16 would pay under the current arrangement. As shown in Exhibit RAS-3,
17 the Vermont Yankee sale and the associated 2001 Amendatory Agreement
18 will result in significant savings to the Company's customer's.

19

20 **Q.** Is the 2001 Amendatory Agreement submitted as part of your testimony?

21

22 **A.** Yes, the 2001 Amendatory Agreement and associated exhibits are
23 appended as Exhibit RAS-4.

1

2 **Q.** Does this conclude your testimony?

3 **A.** Yes, it does.